

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 1345 - HB 1901

March 19, 2011

SUMMARY OF BILL: Removes the state sales tax rate of 5.5 percent for food and food ingredients.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – Net Impact - \$123,078,900

Increase Local Revenue - \$5,924,500

Assumptions:

- Removing Tenn. Code Ann. 67-6-228(a), effectively causes food and food ingredients to become sales-taxable as tangible personal property at a rate of seven percent. This occurs because no other law exempts food and food ingredients from state sales tax. As a result, these items will fall under the definition of “tangible personal property” as defined in Tenn. Code Ann. § 67-6-102(92)(A). Pursuant to Tenn. Code Ann. § 67-6-202(a), tangible personal property is taxable at a seven percent rate.
- According to the Department of Revenue, state sales tax collections from food and food ingredients in FY09-10 were approximately \$476,900,000.
- Based on historical growth rates for food sales, retail sales of food and food ingredients grow by two percent per year. Under current law, state sales tax collections from food and food ingredients for FY11-12 are estimated to be \$496,166,800 ($\$476,900,000 \times 102.0\% \times 102.0\%$).
- Under current law, taxable sales of food and food ingredients for FY11-12 are estimated to be \$9,021,214,545 ($\$496,166,800 / 5.5\%$).
- Given this bill effectively increases the state sales tax rate on food and food ingredients, taxable sales of food and food ingredients decrease by one percent.
- Under this bill, taxable sales of food and food ingredients for FY11-12 are estimated to be \$8,931,002,400 ($\$9,021,214,545 \times 99\%$).
- Under this bill, state sales tax collections from food and food ingredients will be \$625,170,168 ($\$8,931,002,400 \times 7.0\%$) in FY11-12.
- The net increase in state sales tax collections will be \$129,003,368 ($\$625,170,168 - \$496,166,800$)

- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- The net recurring increase in state revenue will be \$123,078,888 [$\$129,003,368 - (\$129,003,368 \times 4.5925\%)$].
- The increase in local government revenue will be \$5,924,480 ($\$129,003,368 \times 4.5925\%$).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc